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OF THE

SPECIAL SUBCOMMITTEE ON CONTROL OF FEDERAL CREDIT

TO THE

COMMITTEE ON THE BUDGET UNITED STATES SENATE

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LETTER OF TRANSMITTAL

To THE MEMBERS OF THE COMMITTEE: During the 96th Congress, the Committee on the Budget established a Special Subcommittee on the Control of Federal Credit. The work of the subcommittee was concluded and its findings were transmitted to the full committee for deliberation on the First Concurrent Resolution for FY 1982. Because of the continued interest in the issue of the growth and control of Federal credit, this report is being printed to provide a permanent record of the findings and recommendations of the subcommittee.

PETE V. DOMENICI.

LETTER OF TRANSMITTAL

APRIL 8, 1981.

COMMITTEE MEMBERS: During Senate Budget Committee markup of the First Concurrent Resolution for fiscal year 1981, the Special Subcommittee on the Control of Federal Credit was established to evaluate the "credit budget" and related issues. In the last Congress, the subcommittee took several steps to improve congressional knowledge and control of Federal credit activities. Namely, we obtained information on credit programs from Federal agencies to build a comprehensive information base on credit activities and held a series of hearings on economic and budgetary credit issues. Last August, the special subcommittee recommended that actions improving congressional control of Federal credit activities be instituted in the Second Concurrent Resolution for fiscal year 1981.

The special subcommittee recommendations attached are provided for markup of the First Concurrent Resolution for fiscal year 1982. These recommendations are based on an examination of actions taken by the Congress in the last session affecting credit programs, administration actions on credit during and since that time period, and the information presented to the subcommittee by hearing witnesses and agencies.

Although many of the subcommittee recommendations can be implemented in the resolution, several of the suggestions address complex long-term problems which are not likely to be solved immediately. Further work is needed in improving information systems and economic analysis for example. Consequently, the subcommittee recommends that the Budget Committee continue special efforts in the credit area through continuation of the special subcommittee or creation of some other oversight body.

Sincerely,

HOWARD METZENBAUM.
LAWTON CHILES.
RUDY BOSCHWITZ.

Background

During markup of the First Concurrent Resolution for FY 1981, the Senate Budget Committee established the Special Subcommittee on Control of Federal Credit to review the Carter Administration proposals for a "credit budget" and related issues. The subcommittee held a series of hearings on economic and budgetary issues associated with credit, surveyed Federal agencies having credit programs, and monitored congressional and administration actions on credit programs in the 96th and 97th Congresses. Based on preliminary findings, the special subcommittee recommended changes in the credit budget that were adopted by the Senate Budget Committee in the Second Concurrent Resolution for fiscal year 1981. This report describes the activities and findings of the subcommittee and includes the final subcommittee recommendations.

Findings

Four major conclusions emerged from the subcommittee experience:

(1) There is significant variation in the design of individual credit programs, e.g., level of interest subsidies, existence and/or proportion of default reserves, and percentages of principal subject to Federal guarantee. These differences and inconsistencies make it difficult to evaluate the effectiveness of direct loan and loan guarantee programs as specific types of aid.

(2) There is a wide variance of agency oversight of these programs which extends to differences in data collection as well as basic accounting definitions and systems. These variations make it difficult to assess both the actual costs of subsidies and defaults and contingent liabilities of the Government for credit programs.

(3) The lack of detailed and consistent agency information on these programs makes central administration and congressional oversight difficult at the present time.

(4) Present congressional control and enforcement mechanisms are inadequate to ensure that congressional intent is fulfilled.

Subcommittee Recommendations

The experience of the last Congress provides some guidance for the priorities and substance of the steps that should be taken in bringing Federal credit under control. First, the subcommittee recommends that the committee take action, as was done in the Second Concurrent Budget Resolution for fiscal year 1981, to continue aggregate credit budget targets, by type of credit program (direct loans and guarantees) in the resolution language. The subcommittee recommends that sense of the Congress language setting totals for all

Federal credit activity (as included in the Concurrent Resolutions for fiscal year 1981) be included in the resolution. The special subcommittee further recommends that functional totals be included in the resolution language as well.

However, the subcommittee thinks that these actions would be insufficient to institutionalize credit control. Additional steps should be taken to improve the congressional credit budget on two major fronts: (1) the form and coverage of the credit budget and (2) recognition of the economic effects of Federal credit.

Credit Budget Form and Coverage

The large potential increase in fiscal year 1981 credit activity projected under the January Carter budget proposal illustrates the problems involved in leaving these programs under administration, rather than congressional control. Some of the credit programs in which the Carter budget projected increased activity were limited in the last Congress. However, it would be within the administration's discretion to direct increased activity in the others without a congressional decision. Control of the aggregate amount of Federal credit activity should be a congressional goal. The subcommittee consequently recommends that Congress adopt enforcement mechanisms to:

—Require that any new credit authorization contain a provision subjecting the availability of credit to review by the appropriations process before it can become effective. This would prevent authorizing committees from reporting legislation that would breach the credit targets.

—Require that all credit programs currently authorized be subject to annual limitations by either appropriation or authorizing committee action, while this conversion of credit programs to appropriated control is underway. This requirement would compel annual Congressional decisions on the desirable size of all credit programs. These annual decisions could be translated in the budget resolutions into aggregate targets for credit activity. Implementation of these actions would shift decisionmaking and control to the Congress.

An obvious part of the credit control problem is the budgetary treatment of the Federal Financing Bank (FFB). In the January FY 1981 Carter budget amendments, the administration proposed increases of $3.4 billion over their July activity estimates for annual FFB activity. Consequently, the subcommittee recommends that Congress take two steps to improve budgetary control over the FFB, namely:

—Control the FFB by establishing appropriations limitations for every credit activity in each agency at the program level. An agency's use of the FFB could be controlled by limiting the guarantees and asset sales by which agencies obtain financing for their programs from the FFB. These financing guarantees could be tracked and limited in conjunction with appropriation limitations on the extension of agency credit to the public.

—Control the magnitude of FFB use by off-budget agencies and federally sponsored enterprises. The aggregate amount of FFB activity could presently be limited by placing appro-

priation limitations at the agency level on the total amount of annual credit activity that each off-budget agency is allowed to conduct with the FFB. Agency borrowing from the private market should also be limited so the purpose of the FFB would not be lost.

—In addition, future FFB activity should be limited by providing new credit programs with an alternative financing source that would have the cost advantage that the FFB now provides over private sector financing: authority to borrow on-budget from the Treasury to finance programs.

The subcommittee recognizes that the information provided on the effectiveness and cost of individual credit programs is insufficient to allow members to accurately assess the relative trade-offs between direct spending and credit programs. Consequently, the subcommittee recommends that the Budget Committee:

—Request that GAO study the cost of credit programs, i.e., interest subsidies and levels of defaults, and develop guidelines for both a government-wide definition for the declaration of defaults and a standard for default reserves. The guidelines could be used by Congress in developing new credit programs and revisions in existing programs.

—Concurrently, request OMB's and CBO's assistance in developing a credit budget information system that will provide program cost information, i.e., defaults and explicit interest costs. This information would be useful both in deciding whether to use a direct spending or credit program to achieve a Federal goal, and to develop a method of controlling losses.

Economic Aspects

The subcommittee also recognizes that the controversy surrounding the impact of Federal credit activities on the capital markets is unresolved. Controversy exists regarding both the macro- and micro-economic impact of credit programs on financial markets, real economic activity, and overall interest rate levels. Without adequate knowledge of the economic impact of Federal credit, it is difficult to establish the appropriate aggregate level of Federal credit.

In the short run, the subcommittee recommends that the aggregate targets for credit programs continue to be set as the sum of the individual decisions on specific programmatic and functional recommendations. However, the subcommittee recommends that research on the impact of Federal credit programs on business and U.S. aggregate economic growth become a committee priority.

Congressional Action in the 96th Congress

Steps Taken in the Budget Resolution

In the January 1980 budget for fiscal year 1981 the Carter administration first proposed tracking and controlling Federal credit-direct loan and loan guarantee activities—as spending programs are controlled. The administration proposed appropriation limitation language for some of these credit programs to attempt to (1) control the absolute magnitude of Federal support provided through these

programs for the year and (2) to institutionalize a system of evaluation and control for these types of programs.

The Senate-passed First Concurrent Resolution for fiscal year 1981 established targets of $63.9 billion for new direct loan obligations and $79.6 billion for new primary loan guarantee commitments. It also contained sense-of-the-Congress language calling on the President and the Congress to limit, through the appropriations process, the on- and off-budget activity of the Federal Government to the levels specified in the resolution. This latter provision was intended to encourage containment of those credit activities—like the FFB—for which the Carter administration had not proposed specific limitations in appropriation acts.

In addition, the Senate resolution contained a point of order enforcement mechanism designed to both institutionalize and provide comprehensive coverage of the credit control system. As this provision was dropped in conference, the First Concurrent Resolution adopted by the Congress focused attention on legislative actions on credit programs as a category, but would not provide an enforcement mechanism for maintaining credit programs at the overall target levels.

Subsequent to adoption of the First Concurrent Resolution, the special subcommittee held a series of hearings on the impact of credit programs, requested information from Federal agencies on credit programs, and monitored congressional actions on these programs. In August 1980, the Senate Budget Committee held markup of the Second Concurrent Resolution on the Budget for fiscal year 1981. No appropriation bills had been enacted. Also agency responses to special subcommittee information requests were still being submitted. However, the subcommittee did make recommendations confirming actions taken by the Senate Budget Committee in the first resolution and expanding the first resolution to institute reporting systems as shown below.

In the Second Concurrent Resolution for fiscal year 1981, the Senate Budget Committee adopted special subcommittee recommendations to:

—Continue credit budget targets, such as those adopted in the First Budget Resolution, in the Second Budget Resolution. This would restrain unplanned growth of Federal credit activities and provide a visible benchmark against which to assess growth.

—Refine aggregate credit totals in the resolution by breaking them into functional totals and into primary and secondary guarantees. This would permit comparison of direct spending, tax expenditures and credit activities within each function.

—Retain sense-of-the-Congress language, such as in Section 10(b) of the First Budget Resolution, limiting both on- and off-budget credit activities. This would limit the Federal Financing Bank and other off-budget credit activities not subject to direct spending controls.

The Second Concurrent Resolution for fiscal year 1981 finally adopted by Congress contained aggregate credit targets of $73.5

billion for direct loans and $82.8 billion for primary loan guarantees. Functional distribution of the aggregate targets is displayed in table 1 below. Sense-of-the-Congress language limiting on- and off-budget credit activities was also included.

Concurrent with action on the Second Concurrent Resolution, the Senate Budget Committee took two additional steps recommended by the special subcommittee, aimed at improving the information available to Congress on costs of individual credit programs and the impact of total credit programs on aggregate credit activities. It was hoped that this information could be used in evaluating potential legislative actions on individual credit programs.

Specifically, the Senate Budget Committee requested that OMB provide the committee with their views on changes in credit terminology in order to develop a government-wide definition for defaults—an area where the subcommittee had found a disturbing lack of information and a wide variety of practices on the part of Federal agencies. OMB deferred recommendations on specific changes in definitions of Federal credit assistance programs until the report of a debt collection project sponsored by the President's Management Improvement Council became available in January 1981. A review of the agency responses to the Budget Committee inquiries on the scope, magnitude, and cost of Federal credit activities revealed that this is a serious problem. In response to a question on default levels for guarantee programs, some agencies provided information on deferrals of loan repayments leading one to suspect that these could, in some cases, be considered defaults. The agency submissions also revealed that there was wide variety in the magnitude and detail of information routinely collected on these programs for management purposes.

In addition, the committee requested that the Congressional Budget Office integrate a system for reporting and tracking legislation authorizing or appropriating Federal direct loans or loan guarantees into the regular congressional budget scorekeeping system. Information provided through this system would permit accurate comparison of the status of congressional action to the credit budget targets, and facilitate congressional decision-making on the size of individual programs. That CBO system is being developed to provide information on an ongoing basis for the 97th Congress, and provided the information on action in the 96th Congress discussed below.

Steps Taken in Appropriation Bills

In most cases, the Appropriations Committee set limits on those programs for which the administration had made a limitation request. The administration exempted programs it considered entitlements or other mandatory lending, emergency lending and insurance programs, and portions of programs it considered financial transactions only (i.e., FFB borrowing and lending). No appropriation bill contained limitation language beyond that requested, although the report accompanying HUD-Independent agencies appropriation bill did indicate an intention to cover all credit programs in subsequent years. Thus, less than half of the fiscal year 1981 direct loan obligations and less than two-fifths of the fiscal year 1981 primary loan guarantee commitments are presently limited by appropriation language.

With the exception of off-budget FFB activity, most direct loan programs have a practical limitation stemming from their appropriated financial resources, i.e., SBA disaster lending can only reach a level reflecting current appropriations for fiscal year 1981 and funding available from repayments. However, those agencies (e.g., TVA), not limited by appropriations language and having the ability to borrow from the FFB by selling certificates of beneficial ownership can increase their levels of credit operations virtually without restraint. In addition, loan guarantees were not usually subject to appropriation limitations before institution of the credit budget.

New Proposals for Fiscal Year 1981 and Fiscal Year 1982

The credit budget totals approved by Congress in the Second Concurrent Resolution for fiscal year 1981 called for restrained growth over 1980 levels. The Carter amendments to the fiscal year 1981 budget transmitted in January 1981 proposed increases in direct loan activity for the FFB resulting from increases in farm disaster lending. Increases were also proposed for housing programs such as FHA and the GNMA mortgage backed securities program, reflecting increased demand for federally backed mortgage credit as borrowers faced high interest rates and limited credit availability. For those programs which were limited by appropriation language, supplemental appropriation language similar to that required for a regular spending supplemental is necessary for the program to operate at the revised level. For those programs where appropriations language was not enacted, activity can be increased at the administration's discretion.

The fiscal year 1982 Carter budget did not propose any major changes in the credit budget control system or coverage. Limitations were recommended for only 68 percent of the Federal credit programs in the credit budget, and the activities of federally sponsored entities, such as the Federal National Mortgage Association were still excluded from tracking in the credit budget. The Carter budget also did not recommend any changes in the treatment of credit activities in the budget but did recommend that a panel of experts be established to examine this issue and other credit policies.

The Reagan budget amendments for both fiscal years 1981 and 1982 propose a sharp reduction below the Carter budget for both new direct loans and loan guarantees. Almost all the reductions Reagan proposed in the credit budget were in loan guarantee rather than direct loan programs. However, the Reagan recommendations for both direct loan obligations and primary loan guarantee commitments would fall within the Second Budget Resolution targets. However, the revised estimate of secondary loan guarantee commitments for the GNMA mortgage-backed securities program would exceed the credit budget target for secondary loan guarantees by $13.2 billion.

The Reagan administration does not propose any major changes in the credit budget control system or coverage. However, the administration has stated its intent to exercise its authority to make administrative decisions to limit agency use of the Federal Financing Bank.

Table 1

CREDIT BUDGET FUNCTIONAL TOTALS—FY 1981

[In billions of dollars]

	Function	Direct loan obligations			New loan guarantee commitments	
		On-budget	Off-budget	Total	Primary	Secondary
050	National defense				0.03	
150	International affairs	8.2		8.2	7.1	
250	General science, space, and technology					
270	Energy	0.01	1.4	1.4	1.7	
300	Natural resources and environment	0.04		0.04		
350	Agriculture	14.0		14.0	2.1	
370	Commerce and housing credit	15.1	27.5	42.6	39.2	53.0
400	Transportation	0.4	0.02	0.4	1.5	0.02
450	Community and regional development	4.0		4.2	0.8	
500	Education, training, employment, and social services	1.1		1.1	6.1	
550	Health	0.2		0.2	0.2	
600	Income security	0.3		0.3	13.1	
700	Veterans benefits and services	0.6		0.6	9.8	
750	Administration of justice					
800	General government				0.1	
850	General purpose fiscal assistance	.0.2		0.2	0.9	
	Total	44.6	28.9	73.5	82.8	53.0

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